

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer



March 18, 2002

The Honorable Anthony A. Williams
Mayor of the District of Columbia
The John A. Wilson Building
1350 Pennsylvania Avenue, NW, 6th Floor
Washington, D.C. 20004

Dear Mayor Williams:

I am pleased to transmit the Fiscal Year 2003 Proposed Budget and Financial Plan. These documents represent the culmination of a collaborative budget process. We worked with you, the City Administrator and the executive leadership team, as well as the program budget staff, to produce a balanced budget during a period of significant fiscal constraints. We will continue this collaboration as the Council deliberates and a consensus budget is developed.

The FY 2003 budget reflects key priorities identified by you and is built on realistic estimates for revenues and expenditures and is balanced through the next five years. This document also presents performance-based budgets (PBB) for seven agencies: The Office of the Chief Financial Officer, Department of Human Services, Department of Motor Vehicles, Department of Public Works, District Department of Transportation, Metropolitan Police Department, and Fire and Emergency Medical Services Department. The FY 2004 budget will include benchmarks for the rest of the government. PBB allows agencies to align programs with funding and performance measures. Thus, stakeholders and agency directors will not make informed and strategic decisions on how to allocate scarce resources and use programmatic results to measure the financial and program outcomes of our investment.

Strong revenue growth of 7.4 percent annually between FY 1999 and FY 2001 was made possible by buoyant financial markets which enabled the District to meet demands for critical program needs. We anticipate that expenditures will continue to grow at a faster rate than revenues for the foreseeable future. Between FY 1999 and FY 2001 local funds expenditures grew at a rate of 9.8 percent. This expenditure growth was driven by spending at Public Charter Schools, D.C. Public Schools and the Department of Mental Health, the latter two of which have been impacted by Medicaid spending.

Revenue is expected to decline between FY 2001 and FY 2002. In FY 2003, revenue growth under current law will be moderate, reflecting a more sober economy and the financial markets in the post-recession period. Correspondingly, expenditures are also forecast to grow more slowly in the District's budget.

Notwithstanding the balanced budget and financial plan projection of an eventual return to revenue stability, the District still faces a significant structural fiscal imbalance in support of the operational and service requirements of managing a state, city and county. For example, 66 percent of the income earned in the District and approximately 53 percent of the District's property is not taxable. Further, the District provides services to daytime workforce that exceeds its resident population, and to the federal government and other tax-exempt entities located in the Nation's Capital. A dialogue that redefines the Federal government's fiscal relationship with the District must begin soon and in earnest.

I would like to thank you and the Council for your leadership and support in managing a fiscally sound District government. I will continue to assist you and the Council as budget deliberations proceed. I also want to thank the Office of Budget and Planning, the Office of Research and Analysis, and agency budget staff for preparing this budget. Additionally, I would like to thank the City Administrator, Deputy Mayors, and program managers who worked with our team to produce this budget. I look forward to continuing our successes that resulted in the turnaround of District's finances and the return to Home Rule.

Sincerely,

A handwritten signature in black ink, appearing to read 'ng' followed by a stylized flourish.

Natwar M. Gandhi
Chief Financial Officer